

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



10TH DISTRICT AGRICULTURAL ASSOCIATION
SISKIYOU GOLDEN FAIR
YREKA, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #09-008
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

10TH DISTRICT AGRICULTURAL ASSOCIATION
SISKIYOU GOLDEN FAIR
YREKA, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

AUDIT STAFF

Ron Shackelford, CPA
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Audit Chief
Assistant Audit Chief
Auditor

AUDIT REPORT NUMBER

#09-008

10TH DISTRICT AGRICULTURAL ASSOCIATION
SISKIYOU GOLDEN FAIR
YREKA, CALIFORNIA

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Jalene Forbis, President
Board of Directors
10th DAA, Siskiyou Golden Fair
1712 Fairlane Road
Yreka, California 96097

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 10th District Agricultural Association (DAA), Siskiyou Golden Fair, Yreka, California, as of December 31, 2008 and 2007, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 10th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

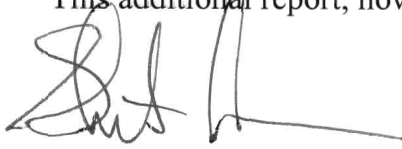
We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 10th DAA, Siskiyou Golden Fair, as of December 31, 2008 and 2007, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 10th DAA, Siskiyou Golden Fair has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #09-008, on the 10th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 10th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

A handwritten signature in black ink, appearing to read 'Ron Shackelford', with a long horizontal line extending to the right.

For Ron Shackelford, CPA
Chief, Audit Office

March 27, 2009

**10TH DISTRICT AGRICULTURAL ASSOCIATION
SISKIYOU GOLDEN FAIR
YREKA, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION
December 31, 2008 and 2007**

	<u>Account Number</u>	<u>2008</u>	<u>2007</u>
ASSETS			
Cash & Cash Equivalents	111 - 117	\$ 541,527	\$ 503,752
Accounts Receivable, Net	131	9,347	31,767
Deferred Charges	143	4,628	4,455
Construction in Progress	190	7,429	6,047
Equipment, Net	193	9,183	20,577
Leasehold Improvements, Net	194	929,866	886,706
TOTAL ASSETS		<u>1,501,979</u>	<u>1,453,304</u>
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable	212	6,212	4,756
Other Payables	221 - 226	-	-
Deferred Income	228	12,796	23,740
Compensated Absences Liability	245	30,409	26,432
Total Liabilities		<u>49,416</u>	<u>54,928</u>
Net Resources			
Net Resources - Operations	291	506,085	485,046
Net Resources - Capital Assets, less related debt	291.1	946,477	913,330
Total Net Resources Available		<u>1,452,562</u>	<u>1,398,376</u>
TOTAL LIABILITIES AND NET RESOURCES		<u>\$ 1,501,979</u>	<u>\$ 1,453,304</u>

**10TH DISTRICT AGRICULTURAL ASSOCIATION
SISKIYOU GOLDEN FAIR
YREKA, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
December 31, 2008 and 2007

	<u>Account Number</u>	<u>2008</u>	<u>2007</u>
REVENUE			
State Allocation	312	\$ 150,000	\$ 150,000
Capital Project Reimbursements	319	62,628	-
Other Revenue	340	64,838	96,632
Admissions	410	108,315	118,530
Commercial Space	415	37,582	40,011
Carnival	421	66,911	70,431
Concessions	422	84,429	89,331
Exhibits	430	8,571	4,797
Horse Show	440	3,682	3,064
Attractions - Fairtime	460	82,984	114,742
Miscellaneous Fair	470	93,426	78,601
Non-Fair Revenue	480	112,213	100,091
Prior Year Adjustment	490	97	1,251
Other Operating Revenue	495	34,123	47,004
Total Revenue		<u>909,799</u>	<u>914,486</u>
EXPENSES			
Administration	500	261,267	215,368
Maintenance and Operations	520	202,366	224,663
Publicity	540	19,634	23,405
Attendance	560	38,157	36,625
Miscellaneous Fair	570	39,431	15,693
Premiums	580	23,370	20,231
Exhibits	630	16,281	16,843
Horse Show	640	10,170	7,086
Attractions - Fairtime	660	135,045	159,548
Prior Year Adjustments	800	(19,161)	(142,155)
Cash Over/Short from Ticket Sales	850	(586)	362
Depreciation Expense	900	82,318	98,359
Other Capital Expenditures, Reimbursable	945	47,321	91,987
Total Expenses		<u>855,613</u>	<u>768,014</u>
RESOURCES			
Net Change - Income / (Loss)		54,186	146,472
Resources Available, January 1		1,398,376	1,251,905
Resources Available, December 31		<u>\$ 1,452,562</u>	<u>\$ 1,398,376</u>

**10TH DISTRICT AGRICULTURAL ASSOCIATION
SISKIYOU GOLDEN FAIR
YREKA, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ 54,186	\$ 146,472
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	22,420	(31,068)
(Increase) Decrease in Deferred Charges	(172)	(454)
Increase (Decrease) in Accounts & Other Payable	1,456	179
Increase (Decrease) in Guranteed Deposit	3,650	-
Increase (Decrease) in Deferred Income	(14,594)	7,037
Increase (Decrease) in Compensated Absence Liability	3,977	(3,327)
Total Adjustments	<u>16,736</u>	<u>(27,633)</u>
Net Cash Provided (Used) by Operating Activities	<u>70,922</u>	<u>118,839</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Construction-in-Progress	(1,382)	(6,047)
(Increase) Decrease in Leasehold Improvements	(43,159)	(73,382)
(Increase) Decrease in Equipmen	<u>11,395</u>	<u>11,395</u>
Net Cash Provided (Used) by Investing Activities	<u>(33,146)</u>	<u>(68,034)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Liability	<u>-</u>	<u>-</u>
Net Cash Provided (Used) by Financing Activities	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	37,775	50,805
Cash at Beginning of Year	503,752	452,947
CASH AT END OF YEAR	<u><u>\$ 541,527</u></u>	<u><u>\$ 503,752</u></u>

**10TH DISTRICT AGRICULTURAL ASSOCIATION
SISKIYOU GOLDEN FAIR
YREKA, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 10th District Agricultural Association (DAA) was formed on May 23, 1927, for the purpose of sponsoring, managing, and conducting the Siskiyou Golden Fair each year in Yreka, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment – The County of Siskiyou leases land to the 10th DAA for the purpose of conducting fairs and expositions. The term of the lease is from February 1, 2001 to January 31, 2051 with an annual fee of \$1.00. The lease includes real property along with all buildings and other appurtenances on the leased land.

Construction-in-progress, land, Leasehold improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. Leasehold improvements and equipment are depreciated over a period of thirty and five years respectively. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at fair market value on the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax on all of the DAA’s sales of merchandise. The DAA collects that sales tax from customers and remits the entire amount to the state Board of Equalization. The DAA’s accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2

NEW ACCOUNTING STANDARDS

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (“GASB Statement No. 45”). This statement establishes standards for the measurement, recognition, and display of postretirement benefits other than pensions expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The statement becomes effective for the District for periods beginning after December 15, 2007. Management has not determined the effect of GASB Statement No. 45 on the combined financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Receivables and Future Revenues*, (“GASB Statement No. 48”). GASB Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should not be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This statement is effective for periods beginning after December 15, 2006. Adoption of this statement did not have a material impact on the combined financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, (“GASB Statement No. 49”). GASB Statement No. 49 requires governmental entities to report pollution remediation costs in their financial statements. It identifies five obligating events under which the government should estimate the expected obligations for pollution remediation. Under the standard, liabilities and expenses will be estimated using an “expected cash flows” measurement technique, which will be employed for the first time by governments. Further, the standard requires that governments disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements with periods beginning December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. Management has not determined the effect of GASB Statement No. 49 on the combined financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures*, (GASB Statement No. 50”). GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (“OPEB”) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (“RSI”) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, (“GASB Statement No. 25”), and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, (“GASB Statement No. 27”) to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, (“GASB Statement No. 43”) and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (“GASB Statement No. 45”). GASB Statement No. 50 will be effective for financial statements with periods beginning after June 15, 2007. Management has not determined the effect of GASB Statement No. 50 on the combined financial statements.

In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, (“GASB Statement No. 51”). GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for financial statements with periods beginning after June 15, 2008. Management has not determined the effect of GASB Statement No. 51 on the combined financial statements.

NOTE 3 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2008</u>	<u>2007</u>
Petty Cash	\$ 100	\$ 100
Cash in Bank – Operating	15,841	4,920
Cash in Bank – Premium	0	0
Cash in Bank – Payroll	0	24,625
Cash in Bank – Time Deposits	<u>525,586</u>	<u>474,107</u>
 Total Cash and Cash Equivalents	 <u><u>\$ 541,527</u></u>	 <u><u>\$ 503,752</u></u>

NOTE 4 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimate of collectability.

	<u>2008</u>	<u>2007</u>
Accounts Receivable – Trade	\$ 9,347	\$ 31,767
Accounts Receivable – CCA	0	0
Allowance for Doubtful Accounts	<u>0</u>	<u>0</u>
 Accounts Receivable – Net	 <u><u>\$ 9,347</u></u>	 <u><u>\$ 31,767</u></u>

NOTE 5 LEASEHOLD IMPROVEMENTS AND EQUIPMENT

Leasehold improvements and equipment at December 31, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Leasehold Improvements	\$ 2,966,957	\$ 2,982,798
Less: Accumulated Depreciation	<u>(2,037,091)</u>	<u>(2,096,092)</u>
Building & Improvements – Net	<u><u>\$ 929,866</u></u>	<u><u>\$ 886,706</u></u>
 Equipment	 \$ 348,406	 \$ 353,496
Less: Accumulated Depreciation	<u>(339,223)</u>	<u>(332,919)</u>
Equipment – Net	<u><u>\$ 9,183</u></u>	<u><u>\$ 20,577</u></u>

NOTE 6 RETIREMENT PLAN

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7 **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

NOTE 8 **LITIGATION**

The DAA is subject to various claims and legal actions relating to a range of matters that are incidental to the conduct of its operations, the DAA's management believes none of which will have a material effect on its financial position or results of operations.

**10TH DISTRICT AGRICULTURAL ASSOCIATION
SISKIYOU GOLDEN FAIR
YREKA, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 10th DAA Board of Directors
1	Chief Executive Officer, 10th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



10th DISTRICT AGRICULTURAL ASSOCIATION
SISKIYOU GOLDEN FAIR
YREKA, CALIFORNIA

MANAGEMENT REPORT #09-008

YEAR ENDED DECEMBER 31, 2008

10TH DISTRICT AGRICULTURAL ASSOCIATION
SISKIYOU GOLDEN FAIR
YREKA, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2008

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Samprit Shergill

Audit Chief
Assistant Audit Chief
Auditor

MANAGEMENT REPORT NUMBER
#09-008

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Jalene Forbis, President
Board of Directors
10th DAA, Siskiyou Golden Fair
1712 Fairlane Road
Yreka, California 96097

In planning and performing our audit of the financial statements of the 10th District Agricultural Association (DAA), Siskiyou Golden Fair, Yreka, California, for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Siskiyou Golden Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 10th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 10th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly



recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 10th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 10th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 10th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 10th DAA and compliance with state laws and regulations, we identified two areas with reportable conditions that are considered weaknesses in the Fair's operations: accounting for leasehold improvements, and independent contractor/employee status determination. We have provided three recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 10th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

ACCOUNTING FOR LEASEHOLD IMPROVEMENTS

A review of Fair's accounting for fixed assets identified that the Fair did not correctly account for all fixed asset transactions prior to closing its accounting records and preparing the annual statement of operations (STOP).

The Fair overstated Account #194, Leasehold Improvements, by \$4,215 and its related accumulated depreciation by \$7,351 for the year ended 2008. The Fair's property ledger and the depreciation schedule included the cost of Slurry Seal for \$20,400 twice, as this cost was already capitalized in the MMP paving project. It was also noted that the Fair only capitalized a portion of the ADA project. As per California Construction Authority's closeout status report, the total cost of the project is \$35,277 but the Fair only capitalized the project for \$19,092. As a result, the Fair undercapitalized the ADA project by \$16,185. Since the Fair overstated one project for \$20,400 and understated the other by \$16,185, the Leasehold Improvement account is overstated by \$4,215 and the accumulated depreciation is overstated by \$7,350.75. By overstating the total project the Fair overstated the assets and net resources at the year ended 2008.

Recommendations

- 1. The Fair should make the necessary correcting journal entries to ensure that Account #194, Leasehold Improvements, and its related accumulated depreciations account, Account #194.1, are fairly stated in the general ledger.*
- 2. In the future, the Fair should ensure all completed capital projects are recorded at cost within its general ledger prior to closing its accounting record and preparing the year-end financial reports. The Fair should contact the California Construction Authority to request supporting documents for any completed projects in order to properly capitalize any assets that meet Department of Finance (DOF) asset capitalization criteria for state agencies.*

INDEPENDENT CONTRACTOR/EMPLOYEE STATUS DETERMINATION

The Fair classified several individuals as independent contractors; however, they may be considered employees. The individuals were hired under the titles of supervisor, superintendent, and manager. The Internal Revenue Service expects a business to have strong and well-documented evidence to support its position that a worker or workers are independent contractors. In addition, the Employment Development Department (EDD) has prepared a list of 24 common law elements to help State agencies distinguish between an independent contractor and an employee. The Fair should be cautioned that misclassifying individuals could result in fines and penalties pursuant to the FLSA or applicable state laws. Therefore, the Fair should receive clarification from the IRS or the EDD as to the proper classification of these individuals who render services to the Fair.

Recommendation

3. *The Fair should ensure they properly classify all individuals providing services to the Fair. If the Fair is unsure of the classification, they should contact the IRS for a ruling by completing IRS Form SS-8, Determination of Employee Work Status for Purposes of Federal Employment Taxes and Income Tax Withholding. This form should be used when it is necessary to seek IRS assistance in determining independent contractor/employee status. The Fair may also contact the EDD for assistance. This will protect the Fair from any unnecessary fines and penalties should an individual hired by the Fair be misclassified.*

NON-REPORTABLE CONDITIONS

ACCOUNTS PAYABLE

The Fair made an attempt, but didn't fully accrue all liabilities at the year-end. Our office noted unrecorded liabilities of \$3,500 at the year-end relating to 2007 expenses that were still outstanding in 2009. The accrual basis of accounting requires the recognition of expenses within the period incurred. If expenses have been incurred but yet not billed, an effort should be made to reasonably estimate and accrue the liability for the amount owed. This should be done prior to closing the accounting records and preparing the annual STOP.

Recommendation

Accounts payable at year-end should include all known payables, including estimates of utilities, even though billings have not yet been received.

FOOD AND BEVERAGE EXPENDITURES

During our review of expenditures, we noted that the Fair did not adequately support expenditures incurred for food and beverages in accordance with State policy and policy identified in the Accounting Procedures Manual (APM). Only credit card receipts were available for review for the majority of the food and beverages purchases made by the Fair. The Fair did not provide detailed receipts to support the expenditures incurred for board meetings and other instances where food was purchased. Without maintaining an adequate level of supporting documentation, we cannot determine whether the food and beverage expenditures were appropriate.

Recommendation

The Fair should ensure that detailed supporting invoices are retained for all food and beverage purchases made by the Fair. This process will help the Fair by documenting that such purchases are business related and not an inappropriate use of State funds.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



PROMOTING EXCELLENCE IN AGRICULTURE
AWARENESS AND EDUCATION.

STATE OF CALIFORNIA
10TH DISTRICT AGRICULTURAL
ASSOCIATION

REBECCA DESMOND, CEO
JALENE FORBIS, PRESIDENT
JUDD HANNA, VICE PRESIDENT

1712 FAIRLANE ROAD
YREKA, CA 96097

OFFICE: 530-842-2767
FAX: 530-842-4724

www.sisqfair.com

May 14, 2009

Ron Shackelford, Chief – Audit Office
State of California
Department of Food & Agriculture
1220 N Street, Room 344
Sacramento, CA 95814

RE: Management Report #09-008
Reportable & Non-Reportable Conditions

Please accept this letter as a response to our preliminary draft of the management report for the year ending December 31, 2008.

REPORTABLE CONDITIONS:

Accounting for Leasehold Improvements

1. *The Fair should make the necessary correcting journal entries to ensure that Account #194, Leasehold Improvements, and its related accumulated depreciation account, Account #194.1, are fairly stated in the general ledger.*
2. *In the future, the Fair should ensure all completed capital projects are recorded at cost within its general ledger prior to closing its accounting record and preparing the year-end financial reports. The Fair should contact the California Construction Authority to request supporting documents for any completed projects in order to properly capitalize any assets that meets Department of Finance (DOF) asset capitalization criteria for state agencies.*

During the audit it was discovered that a slurry seal project was recorded twice (once on its own and once under the MMP project); therefore there was a reduction in Leasehold Improvements. Plus some previous paving projects that paperwork could not be located had been removed from the property ledger however they were not fully depreciated so those improvements were added back on. The fair has been in contact with the audit office to confirm that the spreadsheet they began which matches our current one. A log will be completed by the Fair for any activity during the calendar year 2009 to assist with auditing.

Independent Contractor/Employee Status Determination

1. *The Fair should ensure they properly classify all individuals providing services to the Fair. If the Fair is unsure of the classification, they should contact the IRS for a ruling by completing the IRS Form SS-8, Determination of Employee Work Status for Purposes of Federal Employment Taxes and Income Tax Withholding. This form should be used when it is necessary to seek IRS assistance in determining independent contractor/employee status. The Fair may also contact EDD for assistance. This will protect the Fair from any unnecessary fines and penalties should an individual hired by the Fair be misclassified.*

The Fair has contacted the Employment Development Department and received a training video on the subject of Employee vs. Independent Contractor. The current contracts on file have been reviewed and many cancelled out and the individuals added to the payroll at fair

time. These changes mostly affect the Building/Department Supervisors and those individuals have been notified and understand the area of concern.

NON-REPORTABLE CONDITIONS:

Accounts Payable

1. *Accounts payable at year-end should include all known payables, including estimates of utilities, even though billings have not yet been recorded.*

This recommendation comes from a vehicle that was purchased through the Department of General Services Fleet Management. A purchase order was created, the vehicle delivered but an invoice was never received or followed up by DGS. Any utility, phone, etc. invoice that occurred prior to year end was correctly expensed in that year.

Food and Beverage Expenditures

1. *The Fair should ensure that detailed supporting invoices are retained for all food and beverage purchases made by the Fair. This process will help the Fair by documenting that such purchases are business related and not an inappropriate use of State funds.*

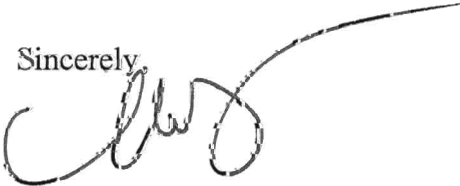
The Fair will make sure, with future food and beverage purchases, that there is an itemized listing receipt and explanation of purchase attached to the payment stub.

Overall we are pleased with this audit report. Our staff does an excellent job of taking care of the state's business and we are proud of our high standing in the network of California fairs when it comes to our organizational and accounting skills.

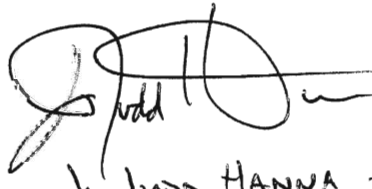
Regarding the draft audit cover letter, we have a few comments. To begin, our board president's name is Jalene Forbis. Also, the fair name is Siskiyou Golden Fair, not Siskiyou Golden County Fair. In the second to the last paragraph of the cover letter, your numbers do not match the actual report. There are only two reportable conditions with a total of three recommendations, not three reportable conditions. Please make corrections for the final report.

Should you have any questions or problems with anything stated in this letter please contact Fair CEO Rebecca Desmond at 530-842-2767.

Sincerely,



Rebecca Desmond
Chief Executive Officer



J. Judd HANNA - FOR:

Jalene Forbis
Board President

cc: Division of Fairs and Expositions

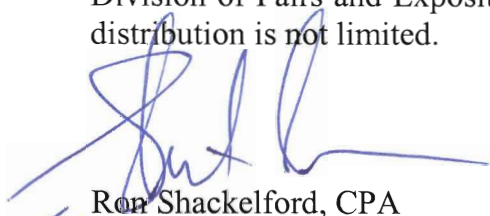
CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 10th DAA, Siskiyou Golden Fair, for its review and response. We have reviewed the response and it satisfactorily addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between March 16, 2009 and March, 27, 2009. My staff met with management on March 27, 2009 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



For
Ron Shackelford, CPA
Chief, Audit Office

March 27, 2009

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 10th DAA Board of Directors
1	Chief Executive Officer, 10th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office